

## **Minutes of the TCRS Board of Trustees meeting on September 29, 2017**

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 29, 2017 at 10:00 a.m. The meeting was held in the Nashville Room of the Tennessee Tower with Chairman David Lillard presiding.

Chairman Lillard asked Mr. Wayman to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Mr. Jamie Wayman, Director of TCRS; Ms. Deborah Tate, Administrative Director of the Courts; Commissioner Rebecca Hunter, Department of Human Resources; Mr. Michael Barker, Mr. Bill Kemp, Mr. Harold Morrison, Mr. Kevin Fielden, Mr. Ken Wilber, Ms. Patsy Moore, Ms. Vicki Burton, Mr. Edward Taylor, and Mr. Alfred Laney.

### **TCRS Board of Trustees Appointments**

Chairman Lillard mentioned that Mr. Bill Kemp, Mayor Ken Wilber, Ms. Patsy Moore and Mr. Bob Wormsley were reappointed for another term to the TCRS Board of Trustees.

### **Approval of the June 23, 2017 Minutes of the Board of Trustees**

On a motion by Commissioner Hunter and seconded by Ms. Tate, the minutes of the June 23, 2017 TCRS Board of Trustees meeting were unanimously approved.

### **Board of Trustees Committee Reports**

Chairman Lillard recognized Mr. Wayman to review the administrative committee report. Mr. Wayman mentioned the administrative committee discussed five entities petitioning to participate into TCRS. Ms. Erica Nale provided an operations update on TCRS and Ms. MaryBeth Franklyn provided an update related to education and counseling provided to members by the financial empowerment division. Mr. Justin Thacker provided a brief summary to the committee on the experience study.

Chairman Lillard recognized Mr. Barker to review the audit committee report. Mr. Barker mentioned the audit committee approved minutes from the previous meeting and Mr. Earle Pierce provided an update on all the audit and activities related to the internal audit division.

Chairman Lillard mentioned the investment committee did not meet. Chairman Lillard noted the committee held interims meetings since the last Board meeting and approved investment transactions.

### **Investment Report**

Chairman Lillard called on Mr. Michael Brakebill to give an overview of the Investment Report. Mr. Brakebill reviewed the Verus Executive Summary Report, which showed the fund ended the year with just over \$47 billion in assets under management. The review began by noting the strong performance of domestic, developed international, and emerging market equity

benchmarks. Next, the performance of the fixed income portfolio was outlined to the Board of Trustees. Mr. Brakebill stated that risk assets exhibited strong performance during the last year across all equity markets as fixed income markets were impeded by a rising rate environment.

The current allocation of the fund was explained in depth with Mr. Brakebill indicating that TCRS's overweight position in US stocks and inflation hedged bonds would adjust as more funds were allocated to real estate, strategic lending, and private equity investments in the future.

TCRS's 2017 return of 11.4% was a strong number on an absolute basis and compares favorably to the actuarial rate and investment benchmark. Although TCRS's absolute return exceeded the benchmark, Mr. Brakebill indicated that TCRS lagged the median peer return of 12.9%. Over the trailing ten years, the return of TCRS did not meet the actuarial rate but it exceeded the performance of 85% of peers. Mr. Brakebill finished the performance review by stating the performance of individual asset classes within the portfolio. Additionally, the formation of the large cap overlay portfolio, the realignment of the international portfolio, and the growth of the strategic lending portfolio were highlighted as important 2017 strategic investment decisions.

Mr. Brakebill reviewed key initiatives for the upcoming year. Mr. Brakebill introduced new hires, Jay Bullie, Austin Monsrud, and Joel Charalambakis and discussed their responsibilities. Process upgrades, the move to two-day equity trade settlement, and the selection of transition managers were discussed with board members. Lastly, changes in the tactical asset allocation process were disclosed to the board.

### **Experience Study Report by TCRS Actuary**

Chairman Lillard introduced Mr. Justin Thacker from Bryan, Pendleton, Swats, and McAllister to review the experience study. Mr. Thacker noted the purpose of the experience study is to verify accuracy of valuation assumptions and modify assumptions if needed and is required to be performed at least every six years as provided in TCA Section 8-34-503(b). Demographic and economic assumptions are used in the actuarial valuation.

Mr. Thacker reviewed the experience related to the demographic and economic assumptions. Changes to post-retirement mortality and pre-retirement mortality assumptions were recommended. The following economic assumption changes were recommended: lowering the average compensation increase from 4.25% to 4.00%; lowering the social security wage base growth from 3.5% to 3.0%; lowering the investment return discount rate from 7.50% to 7.25%; lowering inflation assumption from 3.0% to 2.5%; and lowering cost of living assumption from 2.5% to 2.25%. Mr. Thacker noted that lowering the social security wage base growth would only affect the Legacy Plan.

On a motion by Commissioner Hunter and seconded by Mr. Barker, the Board unanimously adopted the assumption recommendations of the experience study.

### **Political Subdivisions Petitioning for Membership in TCRS**

Mr. Wayman advised the Board that the administrative committee had reviewed the requests for participation in TCRS for the Bedford County Emergency Communications District,

Brownsville-Haywood County Library, City of Grand Junction, Marion County Library, and Town of Pleasant Hill. The Bedford County Emergency Communications District, Brownsville-Haywood County Library, Marion County Library, and Town of Pleasant Hill selected the Legacy Pension Plan. The City of Grand Junction selected the alternate define benefit plan.

On a motion by Mr. Morrison and seconded by Mayor Wilber, the Board unanimously approved the requests for participation in TCRS for the Bedford County Emergency Communications District, Brownsville-Haywood County Library, City of Grand Junction, Marion County Library, and Town of Pleasant Hill.

### **Executive Committee Report**

Mr. Wayman mentioned the executive committee met on August 17, 2017. He noted the committee reviewed two settlement orders and voted on the two orders.

### **Other Business**

Chairman Lillard mentioned there was not going to be an educational session after the meeting. He announced future meetings.

### **Adjournment**

Chairman Lillard announced the completion of the business at hand and asked if there was any other business to come before the Board.

On a motion by Mr. Barker and seconded by Mr. Kemp, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 11:36 a.m. on September 29, 2017.

**Respectfully Submitted,**



**Jamie Wayman**  
Director, TCRS

Approved:



**David H. Lillard, Jr.**  
Chairman of the Board